Richmond Local Municipality
(Registration number KZN 227)
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Nature of business and principal activities	Richmond Municipality is a local municipality performing the functions as set out in the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Mayoral Committee	
Executive Mayor	Cllr. S.J. Mchunu
Deputy Mayor	Cllr. K. E. Mkize
Speaker	Cllr. S. B. Ndlovu
Member of the Executive Committee	Cllr. S.J. Mchunu
Member of the Executive Committee	Cllr. K.E. Mkhize
Member of the Executive Committee	Cllr. T.C. Madonda
Councillors	N.P. Phoswa
	B. Mbanjwa
	V. Maphumulo
	B.R. Shange
	B. Ngcongo
	M.J. Jili
	S.L. Shange
	T.C. Madonda
	S. Ngubo
	S.J. Mchunu
	N.W. Mjwara
	S.B. Ndlovu
	K.E. Mkhize
	S. Ngcobo
Grading of local authority	Category 3
Municipal Manager	S.D. Mkhize (Acting) 033 212 2155 mm@richmond.gov.za
Chief Financial Officer (CFO)	Msizi Ngcobo (Acting) 033 212 2155 cfo@richmond.gov.za
Registered office	57 Shepstone Street Richmond 3780
Business address	57 Shepstone Street Richmond 3780
Postal address	Private Bag 1028 Richmond 3780

General Information

Bankers	First National Bank, Nedbank
Auditors	Auditor-General of South Africa (AGSA)
Published	31 August 2019
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (Act No. 56 of 2003) Local Government: Municipal Systems Act (Act No. 32 of 2000) Local Government: Municipal Structures Act (Act No. 117 of 1998) Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Property Rates Act (Act No. 6 2004) Division of Revenue Act (Act No. 1 of 2007)

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The reports and statements set out below comprise the annual financial statements presented to the council:

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts

Accounting Officer's Responsibilities and Approval

The Accounting Officer is responsible for the preparation of the annual financial statements in terms of section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003). The Accounting Officer is required by the Municipal Finance Management Act (Act No. 56 of 2003) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any Interpretations, Guidelines and Directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I, as the Accounting Officer, acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the community and government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I would like to bring the following matters to your attention:

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 27 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government’s determination in accordance with the Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019 and were signed on his/her behalf by:

S. D Mkhize
Acting Accounting Officer

Saturday, 31 August 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories		-	995
Receivables from exchange transactions	4&6	1 155 217	1 380 516
Receivables from non-exchange transactions	5&6	22 507 941	18 297 874
VAT receivable	7	9 422 538	6 094 189
Cash and cash equivalents	8	23 259 084	34 341 894
		56 344 780	**60 115 468**
Biological assets	9	13 759 506	12 833 735
Heritage assets	12	212 767	212 767
Intangible assets	11	659 406	1 077 733
Non-Current Assets			
Non-current investments		266	266
Property, plant and equipment	10	362 622 216	336 100 188
		377 254 161	**350 224 689**
Total Assets		**433 598 941**	**410 340 157**
Liabilities			
Current Liabilities			
Employee benifit obligation	15	-	586 880
Finance lease obligation	13	542 144	-
Operating lease liability	3	478 885	434 625
Payables from exchange transactions	14	24 105 021	25 569 004
Trade payables from non-exchange	49	3 858 533	2 650 891
Unspent conditional grants and receipts	16	8 377 916	4 270 588
		37 362 499	**33 511 988**
Non-Current Liabilities			
Employee benifit obligation	15	11 690 220	11 046 578
Provisions	17	6 716 160	6 196 053
		18 406 380	**17 242 631**
Total Liabilities		**55 768 879**	**50 754 619**
Net Assets		**377 830 062**	**359 585 538**
Accumulated surplus		377 830 062	359 585 538

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	19	924 758	3 019 983
Operational revenue	21	425 110	442 409
Licences and permits (exchange)		171 933	197 818
Interest earned - Outstanding debtors	18	268 579	142 890
Service charges	18	1 046 465	999 869
Fair value gains	21	925 771	-
Interest revenue	22	2 528 939	2 923 112
Total revenue from exchange transactions		**6 291 555**	**7 726 081**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	17 215 842	14 007 456
Licences and permits		518 353	698 694
Transfer revenue			
Government grants and subsidies received	24	87 237 357	90 155 114
Fines	25	3 271 626	2 679 198
Total revenue from non-exchange transactions		**108 243 178**	**107 540 462**
Total revenue	18	**114 534 733**	**115 266 543**
Expenditure			
Employee related costs	26	(46 291 566)	(40 555 236)
Remuneration of councillors	27	(5 764 248)	(5 043 334)
Depreciation and amortisation	28	(457 723)	(18 216 278)
Impairment losses		(7 692 591)	(3 546 292)
Finance costs	29	(220 175)	(182 242)
Lease rentals on operating lease	30	(673 130)	(674 397)
Contracted services	31	(18 865 317)	(31 048 786)
Transfers and subsidies	32	(1 514 999)	-
Operational costs	33	(14 810 617)	(15 152 052)
Total expenditure		**(96 290 366)**	**(114 418 617)**
Surplus for the year		**18 244 367**	**847 926**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**358 737 612**	**358 737 612**
Changes in net assets		
Surplus for the year	847 926	847 926
Total changes	847 926	847 926
Opening balance as previously reported	343 575 597	343 575 597
Adjustments		
Prior year adjustments	16 010 098	16 010 098
Restated* Balance at 01 July 2018 as restated*	**359 585 695**	**359 585 695**
Changes in net assets		
Surplus for the year	18 244 367	18 244 367
Total changes	18 244 367	18 244 367
Balance at 30 June 2019	**377 830 062**	**377 830 062**

Note(s)

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1 617 455	34 759 386
Grants		87 237 357	90 155 114
Interest received		2 797 518	3 066 002
Other receipts		3 696 736	3 121 607
Rate payers, government		10 689 865	14 007 456
		106 038 931	145 109 565
Payments			
Employee costs		(51 999 052)	(45 332 088)
Suppliers		(38 883 390)	(55 549 986)
		(90 882 442)	(100 882 074)
Net cash flows from operating activities	37	**15 156 489**	**44 227 491**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(26 561 267)	(30 406 940)
Investment property	10	-	7 820 000
Biological asset additions		-	(12 833 735)
Net cash flows from investing activities		**(26 561 267)**	**(38 486 677)**
Cash flows from financing activities			
(Repayment/ Advance of long term liabilities		-	(34 669)
(Repayment) / Advance of financial lease		-	(182 424)
Finance lease payments		321 969	-
Net cash flows from financing activities		**321 969**	**(217 093)**
Net increase/(decrease) in cash and cash equivalents		**(11 082 809)**	**2 242 507**
Cash and cash equivalents at the beginning of the year		34 341 894	32 099 387
Cash and cash equivalents at the end of the year	8	**23 259 085**	**34 341 894**

* See Note 42

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.Refer to note 42 for the going concern assesment performed.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade Receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is first for individually significant receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

For trade receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's or receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided.

Management has made estimates of the selling price and direct cost to sell on certain inventory items.

The write down is included in surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Impairment testing

The recoverable amounts of potentially impaired cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption made may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Value in use of cash-generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as supply and demand, together with economic factors such as exchange rates and inflation interes.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

The present value of the post-retirement and long-term obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement and long-term obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality uses the prime interest rate to discount other future cash flows.This interest rate is adjusted for risk where appropriate.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Biological assets

The municipality recognises a biological asset that forms part of an agricultural activity or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the pine trees.

A gain or loss arising on initial recognition of a biological asset that forms part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset that forms part of an agricultural activity is included in surplus or deficit for the period in which it arises.

A biological asset that forms part of an agricultural activity is derecognised on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of a biological asset that forms part of an agricultural activity is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average/range of useful life
Buildings:		
- Building improvements	Straight-line	10 - 30 years
Community:		
- Community facilities	Straight-line	15 - 30 years
- Recreatonal facilities	Straight-line	15 - 30 years
Other:		
-Bins and containers	Straight line	5 -15 years
- Computer equipment	Straight line	5 - 10 years
- Emergency Equipment	Straight line	5 - 10 years

1.6 Property, plant and equipment (continued)

- Furniture and Fittings	Straight line	5 - 15 years
- Motor Vehicles	Straight line	7 - 15 years
- Office Equipment	Straight line	5 - 15 years
- Plant and Equipment	Straight line	5 - 15 years
- Specialist Vehicles	Straight line	10 - 20 years
- Other Assets	Straight line	25 - 30 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the annual financial statements (see note 10).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified Computer software as an intangible asset.

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date. .

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses, which is line with the asset management policy of the municipality.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 - Heritage assets.

1.8 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement, classes of heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount is the higher of a cash-generating asset's or cash-generating unit's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

The municipality assesses and defines cash-generating assets as all assets held by the municipality with the primary objective to generate commercial return, and non-cash generating assets as those assets other than cash generating assets.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use, the municipality:
- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

1.9 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments, where applicable.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interes and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.10 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

A residual interest is any contract that manifests an interest in the assets of the municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the municipality’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Accounting Policies

1.11 Financial instruments (continued)

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Non-current investments	Financial asset measured at amortised cost
Receivables from Exchange and Non Exchange Transactions	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents - Call Deposits	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents - Bank	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents - Cash	Financial asset measured at amortised cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

1.11 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipality reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

Accounting Policies

1.11 Financial instruments (continued)

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

Accounting Policies

1.11 Financial instruments (continued)

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.12 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value or current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.14 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

1.15 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment, in accordance with Section 15(2) payment basis of the Value-added Tax Act (Act No. 89 of 1991).

1.16 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- the municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

1.16 Employee benefits (continued)

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and

Accounting Policies

1.16 Employee benefits (continued)

- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

1.16 Employee benefits (continued)

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment Independent qualified actuaries carry out valuations of these obligations.
The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

1.17 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

1.17 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:
- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on Impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.18 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.19 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

1.20 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.21 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the event giving rise to the transfer has occurred.

Accounting Policies

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 46 - Unauthorised expenditure.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 47 - Fruitless and wasteful expenditure.

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality’s supply chain management policy.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 48 - Irregular expenditure.

1.27 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

1.27 Commitments (continued)

Disclosures are made in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases. Refer to note 38 - Commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that municipality's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances. Refer to note 40 - Related parties.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

Accounting Policies

1.30 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 41 - Comparative figures.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 12 (as amended 2016): Inventories	01 April 2018	The impact of the is not material.
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the is not material.
• GRAP 21 (as amended 2016): Impairment of Non-cash-generating Assets	01 April 2018	The impact of the is not material.
• GRAP 26 (as amended 2016): Impairment of Cash-generating Assets	01 April 2018	The impact of the is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

2.3 Standards and interpretations issued, but not yet effective

The municipality had adopted all applicable standards and interpretations in the current year:

• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• GRAP 20: Related Parties	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

3. Operating lease liability

Current liabilities	(478 885)	(434 625)

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 40 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:
- Land

The following restrictions have been imposed on the municipality in terms of the lease agreements on Land:
(i) The land shall remain the property of the lessor.
(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the land.
(iii) The land shall be returned in good order and condition to the lessor upon termination of the agreement.

4. Receivables from exchange transactions

Trade receivables	1 155 217	1 380 516
Gross balances		
Refuse	1 971 839	1 218 586
Other receivables	1 128 595	1 057 550
	3 100 434	**2 276 136**
Less: Provision for impairment		
Refuse	(1 535 143)	(672 362)
Other receivbles	(740 898)	(223 254)
	(2 276 041)	**(895 616)**
Net Balance		
Refuse	436 696	546 223
Other receivables	387 696	834 296
	824 392	**1 380 519**

No trade receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 5 months past due are not considered to be impaired. At 30 June 2019, R 781 891 (2018: R 825 463) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2019	2018
1 month past due	215 767	519 068
2 months past due	215 327	117 979
3 months past due	126 190	68 173
4 months past due	113 386	60 956
5 months past due	111 220	59 287

Reconciliation of impairment of trade and other receivables

	2019	2018
Opening balance	895 616	559 173
Impairment allowance	1 380 424	418 962
Amounts written off as uncollectible	-	(82 519)
	2 276 040	**895 616**

The municipality does not hold any collateral as security.

5. Receivables from non-exchange transactions

	2019	2018
Impairment of receivables from non exchange	(13 192 980)	(10 085 434)
Other receivables from non-exchange	137 510	1 013 679
Other receivables	859 160	-
Assesment rates debtors	34 704 251	27 369 629
	22 507 941	**18 297 874**

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year.

Sundry Deposits are in respect of cash deposits made to Caltex for the supply of fuel and uMgungundlovu District Municipality for the supply of water.

Sundry Debtors were in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2019, receivables from non-exchange transactions of R 22 837 966 (2018: R 13 379 238) were impaired and provided for.

The amount of the provision was R 16 851 964 as of 30 June 2019 (2018: R 10 699 490).

The ageing of these receivables is as follows:

	2019	2018
0 - 30 days	962 573	1 753 530
31 - 60 days	2 291 010	741 501
61 -90 days	1 390 169	1 131 700
+90 days	26 304 522	18 480 166

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2019	2018
Opening balance	(17 344 865)	(7 290 411)
impairment allowance	(16 851 964)	(10 054 454)
	(34 196 829)	**(17 344 865)**

The municipality does not hold any collateral as security.

6. Consumer debtors disclosure

	2019	2018
Gross balances		
Consumer debtors - Rates	34 704 251	27 369 629
Net balance		
Consumer debtors - Rates	34 704 251	27 369 629
Rates		
Current (0 -30 days)	4 718 550	1 753 530
31 - 60 days	2 291 010	741 501
61 - 90 days	1 390 169	1 131 700
91 days +	26 304 522	23 742 898
	34 704 251	**27 369 629**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	315 859	636 177
31 - 60 days	378 463	309 112
61 - 90 days	300 034	347 024
+90 days	7 141 223	5 898 765
	8 135 579	**7 191 078**

Industrial/ commercial		
Current (0 -30 days)	318 741	132 073
31 - 60 days	241 389	72 790
61 - 90 days	77 086	75 790
+ 90 days	1 541 397	1 219 168
	2 178 613	**1 499 821**

National and provincial government		
Current (0 -30 days)	109 035	95 040
31 - 60 days	1 370 229	99 458
61 - 90 days	652 469	407 030
+90 days	9 327 528	4 224 396
	11 459 261	**4 825 924**

7. VAT receivable

VAT	9 422 538	6 094 189

Sundry Deposits are in respect of cash deposits made to Caltex for the supply of fuel and uMgungundlovu District Municipality for the supply of water. Sundry Debtors were in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The municipality does not hold deposits or other security for its Receivables.
None of the Receivables have been pledged as security for the municipality's financial liabilities

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 200	3 200
Bank balances	18 013 474	20 316 324
Short-term deposits	5 242 410	14 022 370
	23 259 084	**34 341 894**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Call Account:- First National Bank - Richmond Branch, Richmond - Account number 613 5600 2695	11 167	530 991	7 090	11 167	530 991	7 090
Housing Operating Account:- First National Bank - Richmond Branch, Richmond - Account number 621 3447 3280	556 527	310 982	293 019	556 527	310 982	293 019
Financial Management Grant Account:- First National Bank - Richmond Branch, Richmond - Account number 622 4181 7537	-	1 900 000	-	-	1 900 000	-
First National Bank - Richmond Branch, Richmond - Account number 628 1001 9217	2 020 442	-	-	2 020 442	-	-
Municipal Infrastructure Grant Account:- First National Bank - Richmond Branch, Richmond - Account number 622 9962 9116	1 360	1 282	-	1 360	1 282	-
First National Bank - Richmond Branch, Richmond - Account number 535 6532 2104	19 653 470	20 359 229	803 691	19 653 470	20 359 229	803 691
Patheni Housing Account:- First National Bank - Richmond Branch, Richmond - Account number 621 1717 0407	174 397	206 266	194 281	174 397	206 266	194 281
Siya Phase II Account:- First National Bank - Richmond Branch, Richmond - Account number 621 7617 4383	329 126	388 843	366 171	329 126	388 843	366 171
Zwelethu Housing Account:- First National Bank - Richmond Branch, Richmond - Account number 621 5568 2844	387 837	458 591	431 935	387 837	458 591	431 935
Call Account:- Nedbank - City Branch, Durban - Account number 03/7165013946/00028/29/30	755 273	10 225 415	30 000 000	755 273	10 225 415	30 000 000
	23 889 599	**34 381 599**	**32 096 187**	**23 889 599**	**34 381 599**	**32 096 187**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4 % to 7 % (2018: 4% to 7%) per annum

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Biological assets

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plantations	13 759 506	-	13 759 506	12 833 735	-	12 833 735

Reconciliation of biological assets - 2019

	Opening balance	Gains or losses arising from changes in fair value	Total
Plantations	12 833 735	925 771	13 759 506

Reconciliation of biological assets - 2018

	Opening balance	Total
Other bearer biological assets	12 883 735	12 833 735

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	68 566 733	-	68 566 733	68 566 732	-	68 566 732
Buildings	32 397 611	(11 421 838)	20 975 773	33 951 613	(12 574 802)	21 376 811
Leasehold property	595 082	-	595 082	-	-	-
Plant and machinery	1 059 905	-	1 059 905	5 059 290	(4 442 032)	617 258
Furniture and fixtures	19 330	(39 396)	(20 066)	1 928 274	(1 194 241)	734 033
Motor vehicles	-	-	-	13 563 892	(2 831 618)	10 732 274
Office equipment	167 126	-	167 126	4 834 989	(3 066 556)	1 768 433
Infrastructure	297 175 740	(90 418 525)	206 832 752	286 218 283	(102 306 410)	183 911 873
Community	56 876 022	(18 652 900)	38 223 122	66 921 623	(18 530 301)	48 391 322
Other property, plant and equipment	50 673 033	(24 481 747)	26 191 286	-	-	-
Leased infrastructure	242 307	(211 804)	30 503	242 307	(240 855)	1 452
Total	**507 772 889**	**(145 226 210)**	**362 622 216**	**481 287 003**	**(145 186 815)**	**336 100 188**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Other adjustments	Depreciation	Total
Land	68 566 733	-	-	-	68 566 733
Buildings	21 376 811	1 167 604	4 882 155	(975 137)	26 451 433
Plant and machinery	617 258	130 115	2 560 694	(254 579)	3 053 488
Furniture and fixtures	734 033	70 657	665 163	(211 559)	1 258 294
Motor vehicles	10 732 274	1 059 905	(7 755 805)	(687 410)	3 348 964
Office equipment	1 768 433	474 716	1 998 574	(892 807)	3 348 916
Infrastructure	183 911 873	7 152 376	(56 984 034)	(12 063 474)	122 016 741
Community	48 391 322	-	(17 507 360)	(3 018 171)	27 865 791
Other property, plant and equipment	-	-	822	(42)	780
Leased infrastructure	1 452	682 983	(646 491)	-	37 944
	336 100 189	**10 738 356**	**(72 786 282)**	**(18 103 179)**	**255 949 084**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Other adjustments	Depreciation	Total
Land	60 746 733	-	7 820 000	-	68 566 733
Buildings	22 290 249	-	-	(913 438)	21 376 811
Furniture and fixtures	920 761	226 355	(1 022 388)	(124 728)	-
Plant and machinery	670 679	70 950	62 357	(186 728)	617 258
Furniture and fixtures	-	-	734 033	-	734 033
Motor vehicles	11 287 386	-	-	(555 112)	10 732 274
Office equipment	2 266 010	-	226 355	(723 932)	1 768 433
Infrastructure	181 719 578	14 080 180	-	(11 887 885)	183 911 873
Community	43 419 721	8 209 638	-	(3 238 037)	48 391 322
Leased infrastructure	30 502	-	-	(29 050)	1 452
	323 351 619	**22 587 123**	**7 820 357**	**(17 658 910)**	**336 100 189**

Pledged as security

No property, plant and equipment were pledged as security.

Assets subject to finance lease (Net carrying amount)

Leasehold property	595 082	-
Leased infrastructure	30 503	1 452
	625 585	**1 452**

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 730 594	(1 071 188)	659 406	1 730 594	(652 861)	1 077 733

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	1 077 733	(418 327)	659 406

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1 635 457	(557 724)	1 077 733

All of the municipality’s Intangible Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality

12. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Cultural buildings	212 767	-	212 767	212 767	-	212 767

Reconciliation of heritage assets 2019

	Opening balance	Total
Cultural buildings	212 767	212 767

Reconciliation of heritage assets 2018

	Opening balance	Total
Other (specify class)	212 767	212 767

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Finance lease obligation

Minimum lease payments due		
- within one year	221 724	-
- in second to fifth year inclusive	406 494	-
	628 218	-
less: future finance charges	(80 011)	-
Present value of minimum lease payments	**548 207**	**-**
Present value of minimum lease payments due		
- within one year	221 724	-
- in second to fifth year inclusive	326 983	-
	548 707	**-**

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

The Local Municipality leased multiple photocopying machine in May 2019 for a period of 3 years which expired in March 2021. The Local Municipality is leasing photocopier machines for period of 3 years and tablets for a period of 2 years. Lease instalments are payable monthly at the end of the month. Incremental interest rate was charged at 10,5% per annum. No restrictions are imposed by lease arrangements. The lease agreements do not provide for contingent lease payments.

14. Payables from exchange transactions

Trade payables	13 573 263	25 202 606
Payments received in advanced - contract in process	1 150 190	366 398
Consumers	1 045 881	-
Accrued leave pay	3 427 255	-
Retentions	4 908 432	-
	24 105 021	**25 569 004**

15. Employee benefit obligations

Defined benefit plan

The plan is a final salary pension / flat plan or a post-employment medical benefit plan.

Post retirement benefit plan

Post retirement gratuity plan

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	8 901 565	8 893 849
Present value of the defined benefit obligation-partly or wholly funded	2 788 655	2 739 609
	11 690 220	**11 633 458**
Non-current liabilities	(11 690 220)	(11 046 578)
Current liabilities	-	(586 880)
	(11 690 220)	**(11 633 458)**

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Independant valuer, One Pangaea Expertise & Solutions, cirried out statutory valuation on an annual basis
The principal actuariel assumptions used were

Discount rate per annum	11.25%	10.69%
Health care cost inflation	8.47%	8.47%
Consumer price inflation	7.07%	6.97%
Net discount rate	2.475	2.055
Average retiment age (Male / Female)	63	63
Mortality during employment	SA85-90	SA85-90
	-	-

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Provincial government grants	8 377 916	29 472 964
Local government grants	-	(25 202 376)
	8 377 916	**4 270 588**

See note 24 for reconciliation of grants from National/Provincial Government.

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.
The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

These amounts are invested in a ring-fenced investment until utilised.

17. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Rehabilitation of Land-fill sites	6 196 053	520 107	6 716 160

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Provisions (continued)

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Rehabilitation of Land-fill sites	5 746 769	449 284	6 196 053

Environmental rehabilitation provision

In terms of the licencing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R6 196 053 (2018: R 5 746 769) to restore the sites at the end of its useful life, estimated to be in 2020. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate

18. Revenue

	2019	2018
Rental of facilities and equipment	924 758	3 019 983
Dividends received - trading	425 110	442 409
Licences and permits	171 933	197 818
Outstanding building debtors	268 579	142 890
Refuse removal	1 046 465	999 869
Fair value gains	925 771	-
Interest received - investment	2 528 939	2 923 112
Property rates	17 215 842	14 007 456
Government grants and subsidies	87 237 357	90 155 114
Fines, penalties and forfeits	3 271 626	2 679 198
	114 016 380	**114 567 849**

	2019	2018
The amount included in revenue arising from exchanges of goods or services are as follows:		
Rental of facilities and equipment	924 758	3 019 983
Dividends received - trading	425 110	442 409
Licences and permits	171 933	197 818
Outstanding building debtors	268 579	142 890
Refuse removal	1 046 465	999 869
Fair value gains	925 771	-
Interest received - investment	2 528 939	2 923 112
	6 291 555	**7 726 081**

	2019	2018
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	17 215 842	14 007 456
Licences or permits	518 353	698 694
Transfer revenue		
Government grants and subsidies	87 237 357	90 155 114
Fines, penalties and forfeits	3 271 626	2 679 198
	108 243 178	**107 540 462**

19. Rental of facilities and equipment

	2019	2018
Premises		
Rental of facilities and equipment	924 758	3 019 983

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. Agency services

21. Other revenue

SETA Refunds	68 641	60 661
Cemetery fees	55 621	89 446
Prints	5 155	9 419
Building plan fees	69 130	83 371
Tender fees	146 047	113 265
Town planning fees	376	1 043
Sundry Income	80 138	85 204
Fair value gains	925 771	-
	1 350 879	**442 409**

22. Investment revenue

Interest revenue		
Bank	154 663	110 182
Short term deposits	2 374 276	2 812 930
	2 528 939	**2 923 112**

The amount included in Investment revenue arising from non-exchange transactions amounted to R 2 528 939.

23. Property rates

Rates received

Residential	11 176 980	7 331 307
Commercial	6 038 862	6 676 149
	17 215 842	**14 007 456**

24. Government grants and subsidies

Operating grants		
Equitable share	62 473 000	59 253 300
Other grants	7 505 798	4 787 501
Other operating grants	-	744 000
	69 978 798	**64 784 801**
Capital grants		
National MIG grants	17 258 559	25 354 000
Library grant	-	16 313
	17 258 559	**25 370 313**
	87 237 357	**90 155 114**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

(For detailed grant disclosure, refer to Annexture A)

Conditional grants received	24 764 357	4 270 588
Unconditional grants received	62 473 000	-
	87 237 357	**4 270 588**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Fines, penalties and forfeits

Building Fines	3 020 026	2 407 306
Pound Fees Fines	3 850	727
Municipal Traffic Fines	247 750	271 165
	3 271 626	**2 679 198**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs

Basic	31 967 796	27 983 862
Medical aid - company contributions	(1 116 765)	-
UIF	6 153 448	4 499 304
WCA	272 718	323 298
SDL	372 040	357 987
Other short term benifits	448 928	345 036
Travel, motor car, accommodation, subsistence and other allowances	1 214 193	998 934
Overtime payments	481 759	272 484
Long-service awards	193 275	-
Acting allowances	6 000	-
Housing benefits and allowances	83 588	59 461
Other	268 186	228 088
	40 345 166	**35 068 454**

Remuneration of Municipal manager

Annual Remuneration	895 125	793 592
Allowances	89 235	126 581
Contributions to UIF, Medical and Pension Funds	1 890	27 999
	986 250	**948 172**

Remuneration of Chief Financial Officer

Annual Remuneration	728 284	966 427
Allowances	211 918	132 000
Performance Bonuses	74 485	-
Contributions to UIF, Medical and Pension Funds	1 884	1 884
Leave payout	30 986	-
Travel	132 000	-
	1 179 557	**1 100 311**

Remuneration of Strategic Manager : community services

Annual Remuneration	195 131	796 370
Allowances	581 407	192 000
Leave payout	224 185	-
Contributions to UIF, Medical and Pension Funds	94 485	100 182
Travel allowance	176 000	-
	1 271 208	**1 088 552**

Remuneration of Strategic manager : Corporate services

Annual Remuneration	183 814	799 505
Car allowance	-	192 000
Performance Bonuses	73 581	-
Contributions to UIF, Medical and Pension Funds	92 700	97 407
Other allowances	590 054	-
Leave payout	175 791	-
Travel allowance	192 000	-
	1 307 940	**1 088 912**

Remuneration of strategic manager : Technical services

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs (continued)

Annual Remuneration	405 506	800 668
Other allowance	233 731	286 000
Travel allowance	214 500	-
Contributions to UIF, Medical and Pension Funds	1 566	1 884
Leave payout	224 185	-
	1 079 488	**1 088 552**

Remuneration of the Acting CFO

Annual Remuneration	619 474	-
Other Allowance	43 746	-
Travel allowance	83 967	-
Contributions to UIF, Medical and Pension Funds	1 260	-
	748 447	**-**

Remuneration of the Acting municipal manager

Annual Remuneration	52 000	-
Other allowances	15 454	-
Travel allowance	103 548	-
Contributions to UIF, Medical and Pension Funds	1 102	-
	172 104	**-**

Remuneration of XXX

27. Remuneration of councillors

Executive Major	766 032	766 032
Deputy Executive Mayor	4 335 930	1 722 388
Mayoral Committee Members	618 000	665 641
Speaker	-	254 155
Councillors	44 286	1 635 118
	5 764 248	**5 043 334**

In-kind benefits

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

28. Depreciation and amortisation

Property, plant and equipment	39 396	17 658 554
Intangible assets	418 327	557 724
	457 723	**18 216 278**

29. Finance costs

Finance leases	220 175	182 242

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

30. Lease rentals on operating lease

Premises		
Contractual amounts	44 260	44 668
Equipment		
Contractual amounts	208 352	311 683
Plant and equipment		
Contractual amounts	420 518	318 046
	673 130	**674 397**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

31. Contracted services

Presented previously		
Other Contractors	-	151 884
Outsourced services		
Burial Services	9 000	10 000
Business and Advisory	161 921	174 262
Catering Services	335 732	274 573
Cleaning Services	12 900	-
Clearing and Grass Cutting Services	-	117 100
Hygiene Services	7 360	6 333
Internal Auditors	294 320	487 096
Litter Picking and Street Cleaning	-	29 557
Medical Services Medical Health Services & Support	-	4 243
Professional Staff	294 996	1 452
Security Services	5 140 452	6 037 670
Consultants and professional services		
Business and Advisory	2 102 395	14 566 497
Legal Cost	4 052 772	1 077 445
Contractors		
Artists and Performers	186 189	-
Building	59 290	3 035
Catering Services	104 917	184 566
Electrical	165 769	3 615 188
Maintenance of Buildings and Facilities	2 797	81 178
Maintenance of Equipment	2 513 025	1 298 266
Maintenance of Unspecified Assets	1 806 180	1 563 651
Prepaid Electricity Vendors	1 453 383	1 322 425
Safeguard and Security	43 915	-
Prepaid Water Vendors	118 004	42 365
	18 865 317	**31 048 786**

32. Grants and subsidies paid

Other subsidies		
Capacity building grant	1 514 999	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

33. Operational cost

Advertising	1 044 794	546 094
Auditors remuneration	1 982 386	1 481 590
Bank charges	112 552	91 951
Consumables	5 331 428	2 686 298
Delivery expenses	-	180
Gifts	-	2 420 660
Hire	-	5 628
Insurance	267	720 540
Conferences and seminars	138 285	217 735
IT expenses	13 652	26 154
Marketing	916 663	938 139
Fuel and oil	210 545	189 607
Postage and courier	61 369	57 080
Printing and stationery	451 550	357 441
Promotions	-	2 000
Protective clothing	229 542	61 470
Subscriptions and membership fees	556 629	521 407
Telephone and fax	829 006	1 052 746
Transport and freight	189 548	155 975
Travel - local	1 614 856	1 011 899
Refuse	-	1 524 423
Title deed search fees	12 497	12 344
Bursaries (Employees)	96 695	75 517
License and registration	137 288	155 501
Decommissioning Restoration: Landfill sites	312 539	270 559
Communication and public participation	-	6 809
Venue expenses	566 500	560 400
Other expenses	2 026	1 905
	14 810 617	**15 152 052**

34. Fair value adjustments

35. Auditors' remuneration

Audit Fees	1 982 386	1 481 590

36. Operating lease

[Describe the lessee’s significant leasing arrangements which include:
- basis on which contingent rent payable is determined.
- the existence and terms of renewal or purchases options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing.]

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

37. Cash generated from operations

Surplus	18 244 367	847 926
Adjustments for:		
Depreciation and amortisation	457 723	18 216 278
Fair value adjustments	(925 771)	-
Finance costs - Finance leases	-	182 242
Finance costs	220 175	-
Impairment loss	7 692 591	3 546 292
Movements in operating lease asset and liability	44 260	434 625
Movements in retirement benefit assets and liabilities	56 762	11 633 458
Movements in provisions	520 107	6 196 053
Changes in working capital:		
Inventories	995	(995)
Receivables from exchange transactions	(1 044 053)	(4 926 808)
Receivables from non-exchange transactions	(10 633 305)	(18 297 874)
Payables from exchange transactions	(1 463 983)	25 569 004
VAT	(3 328 349)	(6 094 189)
Taxes and transfers payable (non-exchange)	1 207 642	2 650 891
Unspent conditional grants and receipts	4 107 328	4 270 588
	15 156 489	**44 227 491**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	34 538 053	20 968 080
Total capital commitments		
Already contracted for but not provided for	34 538 053	20 968 080

Authorised operational expenditure

Already contracted for but not provided for		
• Open orders	1 864 404	-
Total operational commitments		
Already contracted for but not provided for	1 864 404	-

Total commitments

Total commitments		
Authorised capital expenditure	34 538 053	20 968 080
Authorised operational expenditure	1 864 404	-
	36 402 457	**20 968 080**

The 2017/2018 Annual financial statements reported a total of R59 995 897 for Capital commitments, this was due to the lack of a reliable commitements register. In an effort to report more reliable information, this amount has been restated in the current year to correctly reflect capital commitments of R20 968 080 for the 2017/2018 year end.

This expenditure will be financed from government grants.

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Other commitments:

The municipality has entered into a contract with Munsoft for the provision of integrated financial management and internal control systems services for the period 01 August 2016 to 31 May 2019, which will give rise to an approximate charge of R1,8 million in the first year, thereafter escalating with the pricing as approved by National Treasury in the RT25-2016 Transversal Contract.

The municipality has entered into a contract with Mills Fitchet for the provision of valuation services for 6 years, which will give rise to a total charge of R1,7 million. The contract terminates on 30 June 2022.

Operating leases - as lessee (expense)

Minimum lease payments:		
- within one year	13 391	12 173
- in second to fifth year inclusive	89 926	81 751
- later than five years	1 573 147	1 594 713
	1 676 464	**1 688 637**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Commitments (continued)

At the reporting date the municipality had the above outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment.

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 40 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Contingencies

Contingent liability 1)

The municipality is claiming back a piece of land which was bought by Umona Phagi for the purpose of developing low and middle income housing. Umona Phagi failed to develop the property within the specific period of time agreed upon and the municipality cancelled the agreement and is claiming back the land in terms of the contract entered into. Negotiations to settle out of court have failed and the municipality is compelled to go to Court to seek the appropriate order. Subsequently, Umona Phangiwent into liquidation and the municipality is negotiating an offer to purchase the property back from SARS, which SARS did not accept and taken over the property themselves. The municipality is not pursuing the matter any further.

Contingent liability 2)

Z.J.Funeka claims damages against the Municipality based on defamation of character. The action is based on vicarious liability. The matter is lying dormant as Plaintiff is not taking action to prosecute the matter. The outcome of the legal proceedings is still unknown.

Contingent liability 3)

This is an urgent application brought by Volsun to interdict the municipality form awarding a tender otherwise than in an open tender. Also seeking the municipality to be forced to continue with an expired tender involving millions being paid to Volsun.
We opposed the application and filed an interim Answering affidavit. The mater stands postponed sine die to enable 1st Respondent to file a Supplementary Answering affidavit which we filed on the 30th July 2018. Depending on Voslun choice to file a Replying affidavit, the parties will then arrange a date for setting down the matter for hearing towards the end of year. Then parties will have to exchange Heads of Arguments before the matter is heard. The disciplinary hearing commenced on 17 April 2018 and proceeded on other dates until it was interrupted by the suspension of the Municipal Manager who is a key witness in the disciplinary hearing. The disciplinary hearing is still pending.

Contingent liability 4)

Malenhle KaJoba Trading sought to interdict payment due by Richmond Municipality to Alpha Om Energy. The urgent application was adjourned to try and resolve the issue relating to invoice claimed by Alpha Om Energy.

Contingent liability 5)

Action had been instituted in the High Court against the Municipality in respect of services rendered by Sivest. Whilst the Municipality does not necessary dispute the invoices Sivest has refused to deliver the necessary documents to prove that the had carried out the work they have claimed for in their invoices until such time that payment has been received. Parties are in talks to try to settle the matter. Sivest has applied for summary judgment which has been adjourned sine die for the purpose of allowing settlement negotiations.

Contingent liability 6)

Municipality was sued as a party to eviction proceedings instituted in the Lands Claim Court pursuant to an illegal occupation of a farm in Richmond which farm is subject to a land claim. The Municipality was joined in these proceedings pursuant to its constitutional obligation to provide alternate adequate accommodation. Matter was eventually settled on the basis that the affected persons will be provided temporary accommodation by the Municipality at a designated location.

Municipality was sued as a party to eviction proceedings instituted in the Richmond Magistrate Court pursuant to PIE legislation. However given that the property in question is a commercial one, the Municipality should not have been joined in these proceedings. This was raised with the Court and the applicant. The applicant wasordered to pay the cost and is in the process of formally withdrawing claim against Municipality.

The table below sets out the contingent liabilities at year end with the maximum potential liability to the municipality:

Summary of contingent liabilities :

Case 1	-	1 300 000
Case 2	250 000	250 000
Case 3	-	59 288
Case 4	433 239	433 239

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Contingencies (continued)

Case 5	-	97 291
Case 6	22 483	-
	705 722	**2 139 818**

Contingent assets

Contingent asset 1

Breach of Contract:
The municipality has lodged a claim against Masefane Trading in respect of the unlawful breach of contract by Masefane Trading. The matter is undefended to date and Affidavits are being prepared in support of application for default judgement. The outcome of the legal processes is unknown at this stage. The municipality needs to provide the Attorneys with the documentary proof of the estimated damages to be suffered for purposes of preparing the Damages Affidavit which will support the Application for Default Judgment.

The vaule of R4 000 000 still remains valid as reported in the prior year.

40. Related parties

Relationships	
Accounting officer	Refer to Accounting Officer's report note
Members of key management	Refer to Employee related costs note 25 and 26

Related party balances

41. Comparative figures

Certain comparative figures have been restated, refer to note 42 - Prior-year adjustments for the detail.

42. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Notes to the Annual Financial Statements

Figures in Rand

42. Prior-year adjustments (continued)

Errors

The following prior period errors adjustments occurred:

Error 1
The DME INEP Grant (Electrification)
In June 2018, Richmond Local Municipality discovered that the DME INEP Grant has been incorrectly accounted for in the municipality annual financial statement, by including the revenue and expenditure relating to the grant while the mandate was limited to being an implementing agent, the over spending on than the grant allocated being recognised as Receivables from exchange transaction without support with regards to the recoverability of the overspending and also the recognition of the provision for impairment relating to the incorrectly recognised receivables from exchange transaction. The incorrect recognition of the provision for impairment resulted on the disclosure of unauthorised expenditure as the provision was not budgeted for. The opening balances have been reinstated to reflect the fair presentation of the Richmond Local Municipality affairs.

The correction of the error will also impact the amount of unauthorised expenditure disclosed on the notes to annual financial statements. There will be no further impact for the current financial year ending on the 30 June 2019.

Error 2

The plantation (Biological Asset)
It was discovered that, in error, Richmond Local Municipality omitted to account for the Plantation in their annual financial statements for the year ended on 30 June 2018. The total assets (Biological assets) and the accumulated surplus opening balances were understated due this error. The opening balances were restated to reflect the fair presentation of the Richmond Local Municipality affairs.

Error 3
The land has been previously classified as the investment property which has been incorrect, since ownership of the land has no other purpose other than to grow plantation which is recognised as a Biological asset.

Error 4
In prior years the accrual for employees' bonuses liability has been omitted in the statement of financial position and the bonus expense was also not recognised in the statement of financial performance in accordance with the accrual basis. The current liabilities for the prior years and expenditure has been understated. The practise that the Richmond Municipality engaged on was to recognise the full expense relating to the preceding year bonus was expense which is in cash basis rather than accrual without considering the potential obligation arising from the future liability towards the bonuses that will in 5 months after the year end. The time issue between the bonus cycle and the financial period was never considered for the accrual basis of accounting. For the identified the prior year errors, the figures must be retrospectively reinstated to represent the fair and annual financial statement which are free from material misstatements.\
An error identified cannot be quantified beyond 2017 as it is impracticable to do so. It was corrected as far back as in 30 June 2017. The error has not affected the figures reported for the current year ending on 30 June 2019.

The effects of the above errors are presented below:

Error 1		
Decrease in receivables from exchange	-	31 231 579
Decrease in provision for impairment	-	31 231 579
	-	**62 463 158**
Error 2		
Accumulated surplus (opening balance adjustment)	(12 833 735)	-
Increase in Biological assets	-	12 833 735
Increase in Fair value adjustment	-	(12 833 735)
	(12 833 735)	**-**

Notes to the Annual Financial Statements

42. Prior-year adjustments (continued)

Error 3

Decrease in biological assets	-	(7 820 000)
Increase in biological assets	-	7 820 000
	-	**-**

Error 4

Accumulated surplus (opening balance adjustment)	1 189 986	-
Increase in accrued bonus liability	-	(1 189 986)
Increase in bonus expense	-	1 189 986
	1 189 986	**-**

Irregular expenditure

Opening balance	2 486 334	286 334
Adjustments made	-	53 404 115
Restated opening balance	**2 486 334**	**53 690 449**

Adjustment made to prior year closing balance of irregular expenditure is due to Irregular expenditure not inculded in the prior financial year.

43. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to the Annual Financial Statements

43. Risk management (continued)

Credit risk

Credit risk consists mainly of receivables from customers and investment securities.. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Cash and cash equivalents	23 259 084	34 341 894
Other financial assets	266	266
Receivables from exchange transactions	22 507 941	18 297 874
Receivables from non-exchange transactions	23 259 084	34 341 894

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately X% of its borrowings in fixed rate instruments. During 2019 and 2018, the municipality's borrowings at variable rate were denominated in the Rand..

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

No event that should be disclosed has come to the municipalities attention after the report ing date that existed at reporting date.

46. Unauthorised expenditure

	2019	2018
Opening balance as previously reported	60 439 092	27 220 658
Correction of prior period error	-	29 043 479
Opening balance as restated	**60 439 092**	**56 264 137**
Incurred in the current year	-	4 174 955
Approved or condoned	(26 209 089)	-
Closing balance	**34 230 003**	**60 439 092**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

	2019	2018
Cash	-	4 174 955

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

46. Unauthorised expenditure (continued)

Analysed as follows: cash

General expenditure	-	4 174 955

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

47. Fruitless and wasteful expenditure

Prior year irregular expenditure identified in the current year	7 824 877	-
Opening balance as restated	**7 824 877**	**-**
Approved or condoned	(45 888)	-
Closing balance	**7 778 989**	**-**

Figures in Rand	2019	2018

48. Irregular expenditure

Opening balance as previously reported	55 890 449	286 334
Correction of prior period error	-	53 404 115
Opening balance as restated	**55 890 449**	**53 690 449**
Incurred in the current year	7 367 100	2 200 000
Closing balance	**63 257 549**	**55 890 449**

49. Taxes and transfers payable (non-exchange)

Transfers payable	(1 014 723)	-
Advance receipts - Taxes	-	2 650 891
Unallocated receipts	4 873 256	-
	3 858 533	**2 650 891**

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next Council meeting and includes a note to the annual financial statements.

The reasons for deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviations from the normal supply chain management regulations.

Summary of deviations		
Supplier is the single source provider	951 922	139 195
unapproved providers used	22 977	10 354
Initial supplier had to be used to service the vehicle per contact	80 799	14 018
Emergency cases	-	78 316
	1 055 698	**241 883**